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SIPDIS

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SUBJECT: SAUDIS DISCUSS LOCALIZING MANUFACTURING, TRANSFERRING TECHNOLOGY

DHARAHAN 00000045 001.2 OF 002

11. (U) KEY POINTS:

-- The Eastern Province Chamber of Commerce and Industry (EPCCI) held its first-ever Local Content Forum on March 23, which discussed transferring foreign technology and manufacturing capabilities to Saudi Arabia.

-- Training and educating Saudis was cited often as the initial step before technology and manufacturing capabilities can be successfully established in the Kingdom.

-- The SAG's Saudization policy was discussed throughout the conference, with most participants from the private sector and government identifying hiring more Saudis as a top priority.

-- The forum was well-attended with many prominent businessmen and government officials, including the CEO of Aramco, a Deputy Minister of Labor, and most of the Eastern Province's prominent business families.

12. (U) COMMENT:

-- Several participants told PolOff that this was the first time that a forum on this topic was held in Saudi Arabia. Although a handful of companies have been successful in transferring technology to the Kingdom, the participants noted a deficit in a technically trained and professional Saudi workforce. It is clear from the discussions at this event that the Saudi educational system continues to fall short of the private sector demands for skilled and qualified technicians and professionals. With more than half of the Saudi population under the age of 25, job creation remains one of the SAG's most difficult challenges.

End key points and comment.

13. (U) LOCAL CONTENT FORUM 2009. The EPCCI held a very well-organized Local Content Forum 2009 at the chamber's main

auditorium. The forum consisted of four sessions: Opportunities for Localizing Content, Role of Government in the Transfer of Technology and Saudization, Participation of Heads of Strategic Sector Firms in the Transfer of Technology and Saudization, and Success Stories in the Private Sector. Each session included four to five panel members, including a chair. The panels were made up of an impressive group of prominent business and government leaders. Some of the more notable panel members include: Khalid al-Falih, President and CEO of Saudi Aramco; Dr. Abdullah al-Dabbagh, President and CEO of Ma'aden; Ali al-Barak, President and CEO of Saudi Electricity Company; Dr. Abdulwahed al-Humaid, Deputy Minister of Labor; Thabit al-Lihaibi, Vice Governor of Sweet Water Conversion Corporation.

¶4. (U) FIRST STEP IS TRAINING AND EDUCATION. All four sessions of the forum discussed in detail the need for increased resources invested in training and education. Perhaps the boldest comments came from Deputy Minister of Labor Dr. Abdulwahed al-Humaid when he called for an overhaul of the curriculum starting in primary education and the need to send more Saudi college students abroad. (Note: Contacts describe al-Humaid as progressive like his boss, Minister of Labor Ghawzi al-Gosaibi. End Note.) Several participants emphasized the need for better vocational colleges and the responsibility of the private sector to establish training centers. Aramco and Zamil Industrial Group highlighted the success of their respective training institutes. The representative of Advanced Electronics Company (AEC) noted that without more well-trained and qualified technicians, bringing manufacturing technology and processes to Saudi Arabia would not be possible. (Note: AEC was itself created under a tech transfer "offset" program related to a multibillion dollar Hughes air defense contract in the 1980s. End note.)

DHAHRAN 00000045 002.2 OF 002

¶5. (U) SAUDIZATION. Dr. al-Humaid said that the SAG had recently decreased Saudization quotas for industrial businesses, dropping the percentage of Saudi nationals from 30% to 20%. In a subtle critique of the Saudi workforce, al-Humaid noted that it was important for Saudis to be capable, qualified and hard-working and that hiring Saudis without these characteristics would lower productivity and damage the economy in the long-term. He added, "Most of the opportunity is with females, which we are not tackling because of social reasons." One participant commented on the value of keeping foreign experts in the company as a mentor for Saudi employees, achieving "Saudization by expansion, not replacement."

¶6. (U) TECHNOLOGY TRANSFER. Abdulmohsen al-Majnooni, VP of Saudi Operations for the Kuwait-based Al-Khurayef Petroleum Company (APC), laid out the key steps to his company's success in transferring technology to the Kingdom: 1) gain knowledge of a technology as a distributor or agent for a foreign company, 2) recruit top-notch experts of that technology -- regardless of nationality, 3) properly fund in-house R&D, and 4) cooperate with large, established companies in the region. Another participant stressed the urgency of transferring technology to Saudi Arabia saying, "We [Saudi companies] rely heavily on foreign sources of technology and things are only getting worse with the WTO agreement." (Note: The participant did not elaborate on what he meant by "worse." End note.) According to one participant, only 8% of Saudi Arabian exports are technology-based (defined as: value added to an export through the application of technology) compared with roughly 50% for South Korea and Japan.

¶7. (U) SPARE PARTS MANUFACTURING IS BEST OPPORTUNITY. Nearly

every major company identified their preference to source spare parts locally, rather than from foreign suppliers. Buying spare parts from abroad often requires maintaining costly inventory levels, procurement delays, and increased costs due to shipping. A representative of the Saudi Electricity Company said that 80% of the procurement of their replacement parts comes from foreign sources. However, Saudi Aramco president, Khalid al-Faleh, noted that his company would not forego any of their quality standards just to procure locally. Several other large firms reiterated this point, saying that local suppliers must be as credible and qualified as the foreign competition. Nevertheless, the opportunity for local producers to fill this

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